

# Audit Report

Livingston County Health Department  
WIC Program

October 1, 2001 – September 30, 2002



Office of Audit  
Quality Assurance and Review  
October 2004



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF COMMUNITY HEALTH  
OFFICE OF AUDIT  
400 S. PINE; LANSING, MI 48933

JANET OLSZEWSKI  
DIRECTOR

October 15, 2004

Ted Westmeier, RS, MPH  
Director/Health Officer  
Livingston County Department of Public Health  
2300 East Grand River Avenue  
Suite 102  
Howell, Michigan 48843-7578

Dear Mr. Westmeier:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Livingston County Health Department WIC Program for the period October 1, 2001 through September 30, 2002.

The final report contains the following: description of agency; funding methodology; purpose and objectives; scope and methodology; conclusions, findings and recommendations; Statement of MDCH Grant Program Revenues and Expenditures; and corrective action plans. The conclusions, findings, and recommendations are organized by audit objective. The corrective action plans include the agency's paraphrased response to the Preliminary Analysis, and the Office of Audit's response to those comments.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

A handwritten signature in cursive script that reads "Debra S. Hallenbeck".

Debra S. Hallenbeck, Manager  
Quality Assurance and Review  
Office of Audit

cc: Alethia Carr, Director, WIC Division  
James B. Hennessey, Director, Office of Audit  
David Figg, Audit Manager, Office of Audit

## TABLE OF CONTENTS

|   | Page |
|---|------|
| Description of Agency .....                                     | 1    |
| Funding Methodology .....                                       | 1    |
| Purpose and Objectives .....                                    | 1    |
| Scope and Methodology .....                                     | 2    |
| <br><u>Conclusions, Findings, and Recommendations</u>           |      |
| <u>Internal Controls</u>  |      |
| 1. Written Payroll Policies and Procedures Not Updated.....     | 3    |
| <u>Financial Reporting</u>                                      |      |
| 2. Improper Payroll Cost Allocation .....                       | 3    |
| 3. Lack of Payroll Accrual.....                                 | 4    |
| 4. Incorrect Reporting of County Central Service Cost .....     | 4    |
| 5. Incorrect Reporting of Nursing Administration Cost.....      | 5    |
| <u>MDCH Share of Costs and Balance Due .....</u>                | 6    |
| Statement of MDCH Grant Program Revenues and Expenditures ..... | 7    |
| Corrective Action Plans.....                                    | 8    |

## **DESCRIPTION OF AGENCY**

The Livingston County Health Department (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a special revenue fund of Livingston County and the Administrative Office is located in Howell, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Livingston County. The Health Department provides community health program services to the residents of Livingston County. These services include: AIDS/HIV prevention; Community Health Assessment; Children with Special Health Care Services (CSHCS); Family Planning; Immunizations; Women Infants and Children (WIC) Supplemental Food Program; Breast and Cervical Cancer Control; Bioterrorism-incurred costs & planning; food service sanitation; general communicable disease control; hearing screening; maternal and child outreach, enrollment, and coordination; vaccine handling; and vision screening.

## **FUNDING METHODOLOGY**

The Health Department services are funded from local appropriations, fees and collections, and grant programs. The Michigan Department of Community Health (MDCH) provides the Health Department with grant funding monthly, based on Financial Status Reports in accordance with the terms and conditions of the grant agreement and budget.

Grant funding from MDCH for the WIC Program is federal funding under federal catalog number 10.557, and is first source funding, subject to performance requirements. That is, reimbursement from MDCH is based upon the understanding that a certain level of performance (measured in caseload established by MDCH) must be met in order to receive full reimbursement of costs (net of program income and other earmarked sources) up to the contracted amount of grant funds prior to any utilization of local funds.

## **PURPOSE AND OBJECTIVES**

The purpose of this audit was to assess the WIC Program internal controls and financial reporting, and to determine the MDCH share of WIC Program costs. The following were the specific objectives of the audit:

1. To assess the Health Department's effectiveness in establishing and implementing internal controls over the WIC Program.
2. To assess the Health Department's effectiveness in reporting their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.
3. To determine the MDCH share of costs for the WIC Program in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Health Department.

## **SCOPE AND METHODOLOGY**

We examined the Health Department's records and activities for the fiscal period October 1, 2001 to September 30, 2002. We performed our review procedures in May 2003. Our review procedures included the following:

- Reviewed the most recent Livingston County Single Audit report for any WIC Program concerns.
- Completed the internal control questionnaire.
- Reconciled the WIC Program Financial Status Report (FSR) to the accounting records.
- Reviewed a sample of payroll expenditures.
- Tested a sample of expenditures for program compliance, and policy and approval procedures.
- Reviewed indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed building space/lease costs for proper reporting and compliance with Federal regulations.
- Reviewed WIC equipment inventory and general Agency equipment inventory records.
- Reviewed WIC coupon inventory controls.

Our audit did not include a review of program content or quality of services provided.

## **CONCLUSIONS, FINDINGS AND RECOMMENDATIONS**

### **INTERNAL CONTROLS**

**Objective 1:** To assess the Health Department's effectiveness in establishing and implementing internal controls over the WIC Program.

**Conclusion:** The Health Department was generally effective in establishing and implementing internal controls over the WIC Program. However, we found an exception relating to Written Payroll Policies and Procedures (Finding 1).

### **Finding**

#### **1. Written Payroll Policies and Procedures Not Updated**

The Health Department did not maintain written policies and procedures for the new payroll processing system.

Written policies and procedures must be updated as new systems are implemented to maintain strong internal controls. They also can provide a standard for performance, which is useful in training new employees.

### **Recommendation**

We recommend the Health Department update written policies and procedures for the new county payroll system. Written policies and procedures should include step-by-step instructions of each procedure used to process payroll and ensure proper record retention.

## **FINANCIAL REPORTING**

**Objective 2:** To assess the Health Department's effectiveness in reporting their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.

**Conclusion:** The Health Department was generally effective in reporting their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, we noted exceptions with regard to payroll allocations (Finding 2), payroll accruals (Finding 3), County Central Service Cost reporting (Finding 4), and Nursing Administration costs (Finding 5).

### **Finding**

#### **2. Improper Payroll Cost Allocation**

The Health Department's payroll cost allocation was not based on the actual activity of each employee as required by Office of Management and Budget (OMB) Circular A-87.

Health Department employees prepare detailed time/activity reports. However, some of the resulting data is entered differently in preparing the payroll distribution report, in an effort to eliminate any program from being charged for two percent or less, by adding those small allocations to other programs. Therefore, the overall payroll distribution was not based on actual employee activity.

OMB Circular A-87, Attachment B, item 11-h (5)(e)(ii) requires that payroll allocations be compared to actual activity at least quarterly, and necessary cost adjustments be made accordingly.

The net effect was over-reported Salary expense of \$1,610 as shown on the Statement of MDCH Grant Program Revenues and Expenditures. However, WIC grant funding was not affected.

### **Recommendation**

We recommend the Health Department implement a payroll cost distribution system that allocates payroll cost to all programs based on actual time/activities.

### **Finding**

#### **3. Lack of Payroll Accrual**

The Health Department does not report a fiscal year end payroll accrual.

Under OMB Circular A-87 Cost Principles, Attachment A, allowable costs are to be determined in accordance with Generally Accepted Accounting Principles, which include the year-end accrual of payroll expense. The net effect of the lack of accruals for fiscal years ending 2001 and 2002 was immaterial and no adjustment was made on the Statement of MDCH Grant Program Revenues and Expenditures. This is a repeat finding from the prior MDCH fiscal review of the WIC program.

### **Recommendation**

We again recommend the Health Department accrue payroll expenditures at the end of each fiscal year.

### **Finding**

#### **4. Incorrect Reporting of County Central Service Cost**

The reported amount of County Central Service Cost (CCSC) for the total Health Department, as well as the WIC share, was incorrect.

The following errors were made in the reported CCSC:

- A. The total CCSC to be allocated to Health Department programs for fiscal year 2001-02 should have been \$384,983 per the base-year 2000 cost plan; however, the amount actually allocated was \$260,848 from the base-year 1997 cost plan.
- B. The percentage rate used to determine the CCSC cost allocation to WIC was last updated in 1997. Therefore, we recalculated the WIC allocation percentage based on the proportion of WIC program salary to total Health Department salary expense. The computed percentage was 7.04% compared to 7.21% used for the reported cost.

Per OMB Circular A-87, Attachment A, General Principles for Determining Allowable Costs, Section F – Indirect Costs, Indirect costs are those incurred for a common or joint purpose benefiting more than one cost objective, and indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

The adjustments to correct the above errors resulted in an increase to the CCSC Pool of \$124,135. The portion that should have been allocated to the WIC Program was \$27,104 (\$384,983 multiplied by 7.04%) compared to the reported amount of \$9,727, as shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. This adjustment does not affect WIC grant funds since the grant funds were already fully spent.

### **Recommendation**

We recommend the Health Department implement review procedures to ensure that the correct base-year County Central Service Cost is reported each year, and that the allocations to programs are based on current year data.

### **Finding**

#### **5. Incorrect Reporting of Nursing Administration Cost**

The Nursing Administration cost computation and allocation to programs was incorrect.

The following errors were made in the Nursing Administration cost computation:

- A. The Nursing Administration Cost allocation was computed by using calendar year 2002 cost, instead of fiscal year 2001-02 cost, resulting in an over-statement of \$2,666 in the Nursing Administration Cost Pool.
- B. The reported WIC Program share of Nursing Administration Cost was 21.7%. We were not able to obtain documentation to support the computation of this percentage. We recomputed the WIC Program share of cost to be 23.25% based on a pro-ration of WIC salary and fringe cost to the total of all clinic program salary and fringe costs.

Per OMB Circular A-87, Attachment A, General Principles for Determining Allowable Costs, Section F – Indirect Costs, Indirect costs are those incurred for a common or joint purpose benefiting more than one cost objective, and indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

The adjustments to correct the above errors resulted in a decrease to the Nursing Administration Cost Pool of \$2,666. The re-computation of the allocation to the WIC Program amounted to \$71,003 compared to reported cost of \$66,855, as shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. This increase of \$4,148 does not affect the WIC grant funds since the grant funds were already fully spent.

### **Recommendation**

We recommend the Health Department implement review procedures to ensure that the correct base-year Nursing Administration Cost is allocated each year, and that the allocations to programs are based on current year data.



## **MDCH SHARE OF COSTS AND BALANCE DUE**

**Objective 3:** To determine the MDCH share of costs for the WIC Program in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Health Department.

**Conclusion:** The MDCH obligation under the WIC Program for fiscal year ended September 30, 2002, is \$123,565. The attached Statement of MDCH Grant Program Revenues and Expenditures shows the budgeted, reported, and allowable costs. The audit made no adjustments affecting WIC grant program funding.

**Livingston County Health Department**  
**WIC Supplemental Food Program**  
**Statement of MDCH Grant Program Revenues and Expenditures**  
**10/1/01 - 9/30/02**

|                             | <b>BUDGETED</b>  | <b>REPORTED</b>        | <b>AUDIT<br/>ADJUSTMENT</b> | <b>ALLOWABLE</b> |
|-----------------------------|------------------|------------------------|-----------------------------|------------------|
| <b>REVENUES:</b>            |                  |                        |                             |                  |
| MDCH Grant                  | \$123,565        | \$123,565 <sup>1</sup> | \$0                         | \$123,565        |
| Local Funds                 | \$127,670        | \$184,268              | \$19,915                    | \$204,183        |
| <b>TOTAL REVENUES</b>       | <b>\$251,235</b> | <b>\$307,833</b>       | <b>\$19,915</b>             | <b>\$327,748</b> |
| <b>EXPENDITURES:</b>        |                  |                        |                             |                  |
| Salary and Wages            | \$116,783        | \$127,490              | (\$1,610) <sup>2</sup>      | \$125,880        |
| Fringe Benefits             | \$29,196         | \$34,962               | \$0                         | \$34,962         |
| Equipment                   | \$0              | \$0                    | \$0                         | \$0              |
| Contractual                 | \$0              | \$0                    | \$0                         | \$0              |
| Supplies                    | \$5,000          | \$6,997                | \$0                         | \$6,997          |
| Travel                      | \$400            | \$403                  | \$0                         | \$403            |
| Communications              | \$1,300          | \$1,907                | \$0                         | \$1,907          |
| County Central Service Cost | \$9,800          | \$9,727                | \$17,377 <sup>3</sup>       | \$27,104         |
| Space Cost                  | \$0              | \$0                    | \$0                         | \$0              |
| Other Expense               | \$600            | \$1,039                | \$0                         | \$1,039          |
| Indirect Cost               | \$30,656         | \$58,453               | \$0                         | \$58,453         |
| Nursing Administration      | \$57,500         | \$66,855               | \$4,148 <sup>4</sup>        | \$71,003         |
| <b>TOTAL EXPENDITURES</b>   | <b>\$251,235</b> | <b>\$307,833</b>       | <b>\$19,915</b>             | <b>\$327,748</b> |

<sup>1</sup>Actual MDCH payments. MDCH funding was provided on a performance reimbursement basis.

<sup>2</sup>Recomputed Salaries & Wages (Finding 2)

<sup>3</sup>Recomputed County Central Service Cost and Allocation to WIC (Finding 4)

<sup>4</sup>Recomputed Nursing Administration Cost and Allocation to WIC (Finding 5)

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 3

**Finding:** Written Payroll Policies and Procedures Not Updated

The Health Department did not maintain written policies and procedures for the new payroll processing system.

**Recommendation:** Update written policies and procedures for the new county payroll system. Written policies and procedures should include step-by-step instructions of each procedure used to process payroll and ensure proper record retention.

**Comments:** The Health Department agrees with this finding. The payroll system was new at the time of the audit.

**Corrective Action:** Procedures are being developed by county administration and will be implemented by the Health Department when approved.

**Anticipated**

**Completion Date:** December 31, 2004

**MDCH Response:** No comment.

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 3

**Finding:** Improper Payroll Cost Allocation

The Health Department's payroll cost allocation was not based on the actual activity of each employee as required by Office of Management and Budget (OMB) Circular A-87.

**Recommendation:** Implement a payroll cost distribution system that allocates payroll cost to all programs based on actual time/activities.

**Comments:** The Health Department agrees with this finding.

**Corrective Action:** The Health Department will increase efforts to distribute payroll based on actual time/activity reports.

### Anticipated

**Completion Date:** Immediately.

**MDCH Response:** No comment.

## Corrective Action Plan

**Finding Number:** 3

**Page Reference:** 4

**Finding:** Lack of Payroll Accrual

The Health Department does not report a fiscal year end payroll accrual.

**Recommendation:** Accrue payroll expenditures at the end of each fiscal year.

**Comments:** The Health Department agrees with this finding.

**Corrective Action:** The Health Department will work with county finance to develop a cost effective payroll accrual method for fiscal year reporting. In the interim the department will estimate accruals for CPBC reporting.

**Anticipated**

**Completion Date:** September 30, 2005

**MDCH Response:** No comment.

## Corrective Action Plan

**Finding Number:** 4

**Page Reference:** 4

**Finding:** Incorrect Reporting of County Central Service Cost

The reported amount of County Central Service Cost was incorrect.

**Recommendation:** Implement review procedures to ensure that the correct base-year County Central Service Cost is reported each year, and that the allocations to programs are based on current year data.

**Comments:** The Health Department agrees with this finding.

**Corrective Action:** The Health Department will use the most recent Central Service Cost report available for end of year reports.

### Anticipated

**Completion Date:** Immediately.

**MDCH Response:** No comment.

## Corrective Action Plan

**Finding Number:** 5

**Page Reference:** 5

**Finding:** Incorrect Reporting of Nursing Administration Cost

The Nursing Administration cost computation and allocation to programs was incorrect.

**Recommendation:** Implement review procedures to ensure that the correct base-year Nursing Administration Cost is reported each year, and that the allocations to programs are based on current year data.

**Comments:** The Health Department agrees with this finding.

**Corrective Action:** The Health Department will use the most recent data available for end of year reports.

**Anticipated**

**Completion Date:** Immediately.

**MDCH Response:** No comment.